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THE INFLUENCE OF THE COOPERATIVE SET-UP OF AGRICULTURAL SETTLEMENT ON THE AGRICULTURAL CREDIT SYSTEM IN ISRAEL

By Gershon KADDAR

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THE INFLUENCE OF THE COOPERATIVE SET-UP

OF AGRICULTURAL SETTLEMENT

No. 629 ON THE AGRICULTURAL CREDIT SYSTEM IN ISRAEL

C.1.2

by
GERSHON KADDAR

Israel agriculture has two principal characteristics: Its land-settling tendencies; its cooperative set-up.

There are many countries where agriculture has, or had, a land-settling tendency: the U.S. is an outstanding example. On the other hand, there are countries where agricultural cooperation is developed to a great extent (Denmark heads the list); but there is hardly a country where cooperatives of diverse types and on various levels have been used for the carrying out of a land-settling policy on a large scale.

As a result of the tendencies mentioned, the agricultural credit system has developed particular characteristics of its own - the greater part of credit is given with the view of realizing the land-settling objectives: populating the country and supplying the population with home-raised produce. Most of this credit, its allocation, management and collection is connected in various ways with cooperatives.

A. THE COOPERATIVE SET-UP OF ISRAELI AGRICULTURE

At the beginning of Zionist settlement in the country the set-up of the Jewish village was drawn up along the lines of European models, centuries old. Agricultural settlements were established, in which the organizational links among the farms were loose. However, after the passage of a relatively short time, the architects of Jewish land-settlement realized that a strong cooperative organization is imperative for enhancing the survival possibilities, both economic and social, of the farms under the prevalent conditions of settlement, i.e., antagonistic surroundings; settlers with a relatively high standard of living but lacking in agricultural and land-settling experience, while the capital that the nation allocated for land-settling activities never met all requirements.

Furthermore, the desire for social justice brought about an inclination on the part of the institutions in charge of settlement towards dividing the land and the capital at their disposal among as many settlers as possible instead of concentrating them in the hands of the few. Under these conditions came into being and grew up at the beginning of this century the primary cells of the Israeli agricultural cooperation: the collective settlement (the kibbutz) and the cooperative village of family farms (the moshav). Each of those two forms tried to go its own way towards the formation of a socio-economic system that holds attraction for its members and is capable of holding its own under Israeli circumstances.

The kibbutz (collective settlement) achieved that through far-reaching collectivization of all branches of production as well as consumer services, 50 to 250 families work together on a big farm (which contains sometimes also non-agricultural enterprises such as industry, health resorts, etc.). This farm is in joint ownership without there being the possibility of identifying or separating the particular share of each of the owner-members. In addition, it is the aim of the collective settlement to manage a joint gigantic household, so to speak, through a dining-hall, laundry and dress-making services, joint care and education of children and youth.

In the moshav, on the other hand, each one of its 50-150 families cultivates its separate farm unit usually of comparatively small dimensions. However, all the small-holder farms of the same settlement are united in one large cooperative which comprises marketing, purchasing means of production, and financing. The majority of these cooperatives also provide for the settlers various producer and consumer services such as joint maintenance of machinery, water supply, grocer, general education and specific training problems, etc.

Besides collective and cooperative settlements we also find ramified cooperatives in settlements of individual farmsteads, but these are similar to the cooperatives found in many other countries.

The collective and cooperative settlements are both organized into several settlement movements, each of which operating on a country-wide scale.

The main reasons for establishing and fostering these movements are: To safeguard the joint interests in the realms of economics and policy-making; ideological and political considerations.

There is no doubt that the national organization of the settlement movements did much to bring about rapid development of cooperative settlement by instituting mutual help among settlements. It also gave them added power to weather adverse circumstances through collective responsibility and the dynamic approach of the settlers to the solution of their problems.

Primary production is carried out mainly by the collective settlements and the farmsteads of the coope ative villages and to a lesser degree by cooperatives in certain cooperative settlements which jointly manage certain production enterprises, such as orchards, field crops etc.

On the basis of both types of settlements, collective and cooperative, there developed in time a variegated network of secondary cooperatives whose task it is to serve the collective and cooperative settlements in many fields. This network comprises the following branches: Marketing of produce (organized on a country-wide scale); Purchasing of means of production (organized on a regional and country-wide basis); Financing: Various auxilliary farming and consumer services, run mainly on a regional basis.

The agricultural credit system is based to large extent on these organizational tools and makes much use of them.

Marketing Cooperatives of Agricultural Produce

These cooperatives, and "Tnuva" first and foremost, play a most vital role in Israel's agriculture. Without them it is impossible to conceive the agriculture of this country.

"Tnuva" comprises some 500 cooperatives (kibbutzim, moshavim, etc), and its marketing activities form about 70% of the over-all marketing of agricultural produce in Israel - not including citrus.

"Tnuva" deals with the marketing of dairy and poultry products, vegetables, fruit, fish, saplings, flowers, etc. It has a unified financial and administrative management, but each type of produce has its own special department.

In the beginning, a number of "Tnuva" cooperatives were set up, one for each district, and that in order to see to it that with the help of the farmers of those districts coordination would be attained between the marketing facilities and the products and marketing possibilities of the various districts.

In time, and together with technical development, it was realized that in a small country the regulating of marketing calls for the hauling of large quantities of products from one district to another. For this reason a main coordinating system was set up under the name "Central Tnuva". Eventual development brought about gradual strengthening of "Central Tnuva", so that in the course of time the district "tnuvas" came to be the branches of this center.

The directorate of "Tnuva"comprises representatives of settlements elected by the settlement movements. In time, there emerged a cadre of permanend and gifted functionaries who brought "Tnuva" to its present dominating position in the marketing of agricultural produce in Israel.

"Tnuva" controls many packing, processing and canning plants. The building of these plants was financed by taking certain excises from the produce delivered by members, in addition to outside loans, mainly from government development funds. The latest innovation is turning part of these excises into a revolving fund paid back to the farmers after a certain number of years.

"Tnuva" is a unique experiment - perhaps the only one of its kind - in setting up a marketing cooperative whose members are primary cooperatives, which deals with wholesale marketing of most types of agricultural produce on a country-wide scale. This is made possible thanks to the exemplary soci-political decipline typifying the Israeli agriculture.

As will be explained later, the undertakings that "Tnuva" is ready to take upon itself are among the most effective tools in the Israeli agricultural credit system.

As a result of surpluses of various types of agricultural produce, the government, at the initiative of the Ministry of Agriculture, has set up a network of produce production boards; The position that "Tnuva" has attained give it considerable influence on most production boards.

The Supply System

Unlike the marketing of produce where there is a marked tendency towards country-wide centralization following regional or local beginnings, the trend of development in the field of purchasing supplies for the farm has passed from country-wide centralization in the initial stage to district organizations in the past few years, and this without losing contact with the countrywide cooperative for the purchasing of supplies, namely "Hamashbir Hamerkazi". This cooperative developed eventually in several additional directions.

Today some 20 purchasing organizations are active in the field of buying fodder, fertilizers, insecticides, fuel, grocery supplies, etc., most of which are organized on a regional basis. A typical purchasing organization centralizes the purchasing of the means of production from 20-30 collective and/or cooperative settlements. As a result of concerted purchasing from the primary source it can get convenient prices and credit conditions from the suppliers. Loans given to a purchasing organization are insured, among others, by the mutual endorsement of its member settlements.

The purchasing organizations have a very good repute on the Israeli credit market. In addition, these organizations serve as representatives of the settlements to the government in the case of negotiations on subsidies, payments for damages caused by natural elements, government loans, etc., and all that in accordance with the agricultural requirements of the region.

The directorate of the purchasing organization is elected by representatives of its member-settlements. There is a joint secretariate for all purchasing organizations which is concerned with coordinating their activities on a country-wide scale, as well as representing them jointly in dealing with government authorities, banks, etc.

Consequent upon regional (vs. country-wide) organization, there is very close relation between the activities of the organization and the requirements of the farm.

Lately there have emerged 3 developments:

- A number of purchasing organizations have added to the purchasing of supplies the construction of big feed mills. Besides, they have built additional installations to serve their members in the fields of produce sorting, refrigeration warehouses, slaughterhouses, etc. As a result of this development, the organizations have turned into industrialists owning permanent assets valued at tens of millions of Israeli pounds.

  So far, it has not been determined in how far the above combination influence the achievement of the primary objectives: insuring supplies to the farm at a low price and convenient credit terms.

- The second development has been the entry of the organizations into the fields of marketing agricultural produce. Today some of them serve as regional agents of the country-wide marketing institutions in certain types of produce. The control over the returns from the marketing of produce facilitates the collection of the organization's dues from its members. However, it has not been fully ascertained yet to what extent will the changing of the regional organization from a line-cooperative to a more comprehensive one will change the organizational set-up of agricultural settlement.
- An interesting fact can be observed in the newly established agricultural settlements. Here the local cooperatives are weak in part owing to the lack of efficient leadership. Consequently, it is not surprising that there is a tendency to by-pass the local cooperative by establishing direct contact between the regional organization and the individual settler in the field of both the purchasing of supplies and the marketing of produce.

Other Regional Cooperatives

A typical settlement comprises 70-100 families. It has been found that neither the size of the population nor the volume of production of a settlement of this size are sufficient for insuring a fair amount of efficiency in the various activities of marketing as well as the producer and consumer services.

Almost from the beginning of cooperative settlement in Israel there has been a trend towards regional organization so as to insure sufficient scale for the carrying out of certain economic op rations. Lately this development has gained renewed momentum and there is even an opinion that regional organization may be the tool for enhancing the economic and political standing of agricultural settlement.

All regional cooperatives are secondary cooperatives in that their members are collective or cooperative settlements and the like, and not individual settlers. A considerable portion of the cooperatives (and especially the newly established ones) are organized parallel to regional councils, which are the municipal bodies of the agricultural regions, comprising generally 10-20 agricultural settlements.

Typical activities of such cooperatives are: Maintenance and operation of trucks; maintenance and operation of heavy agricultural machinery (tractors for earthmoving operations, cotton pickers as well as machinery for lifting sugar-beets and potatoe-picking); maintenance and operation of refrigerating warehouses for agricultural produce; industrial services:- cotton, gins, alfalfa-drying plants, poultry slaughter-houses, bakeries, etc; maintaining regional schools: primary, secondary and vocational; special bus service to students of these schools; evening classes for adults; regional laundries; theatrical performances.

There are intentions (and even humble actual starts) to base the industrialization of the rural areas to an increasing extent on regional organizations.

Activities within the framework of the regional cooperatives have several conspicuous advantages: They enhance the extent of an operation, thus making for efficiency, improvement and lowering of prices; they provide greater possibilities for employing hired labour without affecting directly the principle of self-labor which is important from a social standpoint to both collective and cooperative settlements.

However, many of the problems connected with that have not yet found their solution. Among them are: Does every settlement in one region have to support each regional activity, or should participation in each regional service by voluntary? Is every field of activity to be organized as a separate cooperative or must a regional cooperative be established to cover all or most activities? Again, should the central regional cooperative operate directly or through affiliated branch cooperatives? Where should the line be drawn between municipal activities based on budgetary considerations and cooperative activities based on profit-and-loss?

Even today, regional cooperatives in all their forms are an important means for granting a part of the loans given to agricultural settlements, and there is ground for expecting this trend to assume bigger proportions in the future.

<u>The Israeli Experience in Setting-Up "Guided Cooperatives"</u>

Before the State of Israel came into being, the settling institutions did not have to put great efforts into organizing groups of candidates for settlement.

After that date, when the majority of immigrants came from non-developed countries (Asia and Africa), the new ones were found lacking in know-how and inclination towards cooperation, which is one of the corner-stones of cooperative settlement.

The institution in charge of settlement - with the help of the settling movements - had to spend great efforts in organizing groups of candidates for agricultural settlement. After a long set of experiments, it was concluded that

it is better to organize the candidates for one village on the basis of ethnic and social homogeneity.

The lack of candidates for agricultural settlement eliminated elaborate classification of candidates. However, the institution in charge of settlement reserves the right to expel from the settlement any new settler who causes to the public harm of an economic or a social nature. For this purpose law was passed in 1953, known as "The Candidates for Agricultural Settlement Law", according to which it is possible to eject from the settlement any candidate within three years of the date of his settlement for the following reasons: (a) Methodical neglect of cultivating his land (b) Intentional damage done to the property of the institution in charge of settlement, or misuse of this property, (c) Disregard for the cooperative regulations, (d) Disturbing the peace of the settlers by using force or threatening to use it.

As has already been mentioned, most of the settlers lacked agricultural and managerial know-how at the initial stages of their settlement. For this reason, a training and extension service was organized in the fields of agriculture, management and home economics.

This service was originally based on workers not from among the local settlers.

As an additional step there has evolved in the last few years a system of temporarily managed settlements operating as follows:

The new settler assumes responsibility in the beginning for only a small part of his land (which includes the house he lives in) while most of the land is managed as a large farm by a public or private company. The manager of this farm is required to employ the new settlers as hired labor in his agricultural operations. In time, centralized cultivation by outsiders is brought to a minimum and finally abolished, while the settler's farmstead is gradually enlarged.

In the variegated array of cooperatives in Israel there are a few secondary cooperatives operating on a national scale that may be of special interest to other countries: mutual insurance cooperatives; cooperatives operating artificial insemination services and cooperatives for the upgrading of poultry.

B. THE AGRICULTURAL CREDIT SYSTEM IN ISRAEL

Jewish agriculture in Israel is characterized by the extensive use of capital. The great demand for capital is due to the fact that in a short time tens of thousands of families lacking any capital of their own as well as agricultural know-how but of a relatively high standard of living - were settled on the land. Fertile land suitable for settlement is relatively limited and consequently intensive agriculture had to be practised n relation to the available capital. Providing the settlements with elaborate irrigation networks as well as numerous live-stock called for heavy investments.

In spite of the fact that economic operations in the course of a few decades, together with devaluation, brought about considerable accumulation of owned capital, especially in the old-established and most efficient settlements, yet in the majority of settlements 'investment' is more or less synonymous with 'loan'.

The national institutions and the State have both made great efforts to mobilize the means necessary for establishing an extensive and elaborated agricultural credit system.

The main components of this credit system are:

Loans to Agricultural Settlement

These are given by the national institutions and especially "Keren Hayessod" which is the agency that gathers the donations given by world Jewery for Jewish settlement in Israel.

These loans include about 2/3 of the institutional loans to agriculture (about IL.650 million by the end of 1961). They are intended for the establishing of new villages and for furnishing them with elementary buildings (both of a producer and consumer nature), with the basic livestock as well as the basic workings capital.

The settler does not assume any financial responsibility upon receiving the farmstead. The first investment capital is given for a probation period (on a licencé basis) during which the settler receives vocational training and adapts himself to the conditions of the settlement and its way of life.

Only after the settler has been trained, from a technical as well as a business management aspect, to support himself, and after the investments in his farm have reached about 70% of the amount of investment required for a farmat full development - in accordance with the regulations drawn up by the institution in charge of settlement - are the ownership and financial liabilities passed to him in relation to such investments as have been agreed upon to be considered as loans.

When a certain farmstead is ready for self support, a plan for additional investments required for the completion of the farm in accordance with the above regulations is drawn up for him by the settling institution; he is made to sign a suitable contract and - within a certain period - the means he lacks for his "establishment" are put at his disposal.

For the whole period from the day of his settlement till he reaches the stage that ensures the ability of self-support - a period that may extend over 5 - 10 years - the settlement has to sign agreement whereby the property is given for his own holding, and for his own use only. The settler is responsible for maintaining and renewing it.

Finally loan contracts are written. During the first two years the interest only is paid. The laon is refunded in the course of the remaining 25 years at 3½% interest. As a security for these loans, the lease of the farmstead is mortgaged.

Development Loans

From the time the State of Israel came into being till the end of 1961 there were put at the disposal of both Jewish and Arab agriculture sums to the amount of approximately IL.160 million* (about one-sixth of the whole institutional credit for agriculture) the origin of which was in the development budget of the State. The budget is financed by taxes and long-term loans in the country and abroad.

The main agency for making these loans is the Agricultural Bank of Israel - a government bank operating without branches and without intermediaries.

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* excluding housing loans.

A typical loan from development funds is given for a period of 10-12 years at an interest of 6½%. As securities are used cattle mortgages on machinery and livestock, pledges of marketing agents and sometimes also the mortgaging of land-lease ranking equally (paripasso), with the mortgage in favor of the settling institution.

In the past the loans were given mainly in accordance with object, i.e. anyone who made a certain investment (such as widening the irrigation network or planting an orchard) was capable of getting a government loan covering 50-80% of the investment, provided that he gives suitable securities.

Raising the efficiency of the farms - unlike the mere increase of their output - required the allocating of development funds on the basis of a comprehensive operation plan which checks carefully the profitability of the investments and the funds complementing the development loans.

In the past few years most of the development funds have been given linked to the dollar or to the cost of living index. With the devaluation of the Israeli pound at the beginning of 1962 serious problems came to the fore in connection with financing many settlements, and public committees are now trying to find ways of alleviating the burden of additional payment that is weighing down the farms as a result of linking the loans given to them.

As for the future, there is a tendency towards substituting the linking of long-term loans by a premium that the government collects from debtors: and in return the government shoulders all responsibility concerning linkage in relation to the creditors.

Bank Loans to Farmers

Bank loans to farmers reached at the end of 1961 the sum of IL.170 million (a sum similar to that of development loans) and constitute more than 1/6 of institutional financing agriculture.

The State's interest in land settlement, the trend towards increasing agricultural produce and the massive organization of agriculture (for the greater part on a cooperative basis) have led to the fact that loans to agriculture amount to 20% of all bank loans. This percentage is considerably higher than the share of agriculture in national income and than the share of the farmers among the earners of the country. On the other hand, bank loans have served to a considerable extent to complement insufficient capital resources for long-term investment, and this in spite of the fact that the loans were given - nominally - for only a short period, usually up to one year.

In Israel there is close government control over bank credits. The aims of this control are to limit the amount of credit as a counter-measure to the inflationary pressure in the economy and qualitative direction of part of the loans.

About IL.100 million of the bank loans to agriculture are termed "controlled credits", i.e., it is given according to a plan prepared each year by the Ministry of Agriculture and the Bank of Israel. The aim of the plan is to encourage the stepping up of production of vital products, which bring profit to the State, by giving advances. These loans are given at 9% interest whereas the Interest Law limits the banks to allocating "uncontrolled" loans given to agriculture (and industry) at 10% interest. However, the excessive demand for capital has brought about a wide

black market for credit where loans fetch a much higher interest.

The cooperative organization of agriculture should facilitate the centralization of credit activities among others through an extensive use of the pledges of marketing cooperatives as well as the mutual guarantee of the settlements (as will be explained later on) for securing loans.

On the other hand, there are in Israel more than 60 commercial banks besides scores of financial institutions, and the typical cooperative village deals with many banks and financial institutions. It appears then, that in spite of the cooperative nature of agriculture - itself aiming at centralization - the credit system is widely split up. Consequently, financing costs with the settlements are high, and comprise direct and indirect visible and invisible elements.

Within the framework of stepping up efficiency in performing farm operations, which is essential for lowering the cost of production and increasing the income of the farmers, steps should be taken (and the initial ones have already been taken) to make capital available at a lower cost, partly through concentrating the financing of each settlement into few hands; meanwhile trying to adapt the lending arrangements to the seasonal financial requirements and repayment ability of the farm.

Maybe the credit system should gradually shift to one-stop-banking of the farm. In this respect, an interesting experiment has already been made in the form of supervized credit for some kibbutzim and moshavim.

Securities in Agricultural Credit

The classical security of agricultural credit is the mortgage on the farm land. This form of security is in very limited use in Israel and only a small portion of the overall agricultural credit and a negligible part of bank loans to agriculture are insured in this way.

The majority of farm lands in Israel are under national ownership and they are leased to farmers on a long-term hereditary lease. It would seem that the absence of private ownership of the land is what prevents the Israeli farmer from resorting to land mortgages for his loans.

But that is not the case. Legally, it is absolutely possible to get a mortgage on leased land (similar to the mortgage on lease-hold); however, the settlement and cooperative nature of agriculture removes from the mortgage its practical value which is inherent in the ability of the creditor to assume ownership of the property and sell it to a third party in case the debtor does not fulfil his engagements.

The possibility of taking over the property and passing it on to a third party is hardly found in Israeli Cooperative agriculture.

The kibbutz farms, for instance, cannot be sold for political and settlement reasons. Deserting a kibbutz and breaking it up is considered something like a "catastrophe" from the standpoint of its foster movement which, allied by the settling institution, does everything in order to recruit new settlers to fill the place of those who have left. There has not been a single case in which a kibbutz was sold by its creditors in the history of Jewish settlement in Israel.

The situation is similar in the moshav: although the members farmsteads are occasionally offered for sale, yet there is no practical possibility for the creditor to sell the farm to another settler without the sanction and active help of the moshav cooperative. However, in case there is cooperation between the creditor and the cooperative management, there is no need to execute the mortgage

in order that the creditor gets his money back.

How, then, are the majority of agricultural credits secured? Loans of hundreds of millions of Israeli pounds are essentially secured in two ways: pledges of marketing agencies (mostly cooperatives) and mutual guarantees worked out according to a system to be described hereunder.

Pledges of Marketing Agencies

The typical farm has very close socio-political relationships with a certain wholesale marketing agency. It may be said that most farms "are born into a certain marketing agent". This marketing agency serves as a central link in the credit system.

Formally, the marketing agent's aid in securing the loan is extended in two ways: The conditional pledge of the marketing agency, i.e., the agency undertakes to repay the farm's loan if and when the farm does not repay it according to schedule, if and when there is money to the credit of the farm with the marketing agency and that at the creditor's first demand.

Pledges to transfer sales' returns of the settlement's marketing proceeds to its bank account. In this case the bank naturally puts the remainder of the proceeds after deducting repayments of the loan at the disposal of the debtor.

In practice conditional pledges of marketing agents are prevalent.

Mutual Guarantees

Years ago the Israeli cooperatives used to directly endorse each other's pledges. This practice proved to be unsatisfactory in that the creditors were unable to get a clear picture of the guarantees given by each cooperative - their amount and nature.

At quite an early stage there were set up by the settlement movements funds the original aim of which was to extend financial guarantees to their members in order to make it easier for them to raise loans. This applies particularly to those cooperatives which constitute the greater bank risks.

In time these institutions accumulated a considerable amount of owned capital sufficient for covering their guarantees. However, they developed eventually into financial institutions extending large amounts of loans and making investments in addition to the above mentioned guarantees.

These funds have a good repute on the Israeli credit market. This repute is due to their prompt payment of any claim based on their guarantees. However, the amounts of guarantees realized so far have been relatively small. Till now the funds have not stood the test of vast repayment of their guarantees as they are liable to come when agriculture faces a serious financial crisis without the public hand being ready and/or able to come to its aid.

It is an open question whether the accumulating of funds is the least expensive way of extending guarantees of the type described. It may be possible to initiate a guarantee system based less on the accumulation of capital and more on reinsurance, and that in order to make guarantees less costly.

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